

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
TWELFTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY GENERAL
D. T. E. 05-27

Date: July 13, 2005

Responsible: Steven A. Barkauskas, Vice President Total Rewards
NiSource Corporate Services Company

BULK ATTACHMENTS

AG-12-9 Referring to Exhibit BSG/SAB-1, page 7, lines 6-8, please provide copies of all materials describing the "newly revised components of total compensation and benefits, and adjustments to compensation policies" that were provided to employees.

Response:

Employees and leaders were informed of a project to calibrate base pay during 2004. Senior leaders were provided with an overview of the program as shown at Attachment AG-12-9 (a).

The culmination of the project was a personal compensation statement that was provided to non-union employees. An example of the statement is shown at Attachment AG-12-9 (b). As part of the rollout of the personal compensation statement, a presentation was made to the employees to brief them on the status of the project as well as NiSource's base pay philosophy. The presentation is shown at Attachment AG-12-9 (c).

The compensation statements were rolled out at the supervisor level. Supervisors were updated on the results of the base pay project and trained regarding the rollout of the personal compensation statement to the employees. The presentation to supervisors is shown at Attachment AG-12-9 (d). Attachment AG-12-9 (e) shows additional information to help managers convey to employees the objectives of NiSource's compensation policies.



Base Pay Management Discussion Guide

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Today's Objectives

- I. Why Base Pay Management?**
- II. Business Impact**
- III. What is the Base Pay Management Project?**
- IV. Current Total Rewards Operating Philosophy**
- V. Link to Performance Management**
- VI. Anticipated Challenges**
- VII. Base Pay Management Team**
- VIII. Next Steps**

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Why Base Pay Management?

- **Strengthens NiSource One Voice**
- **Ensures a compensation program that is credible and defensible**
- **Introduces disciplined & consistent compensation process – linked to internal and external market**
- **Provides flexibility for business leaders**
- **Mandates business leader accountability for pay decisions**
- **Creates opportunities for sharing talent across the organization**
- **Reduces costs of compensation administration**

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Business Impact

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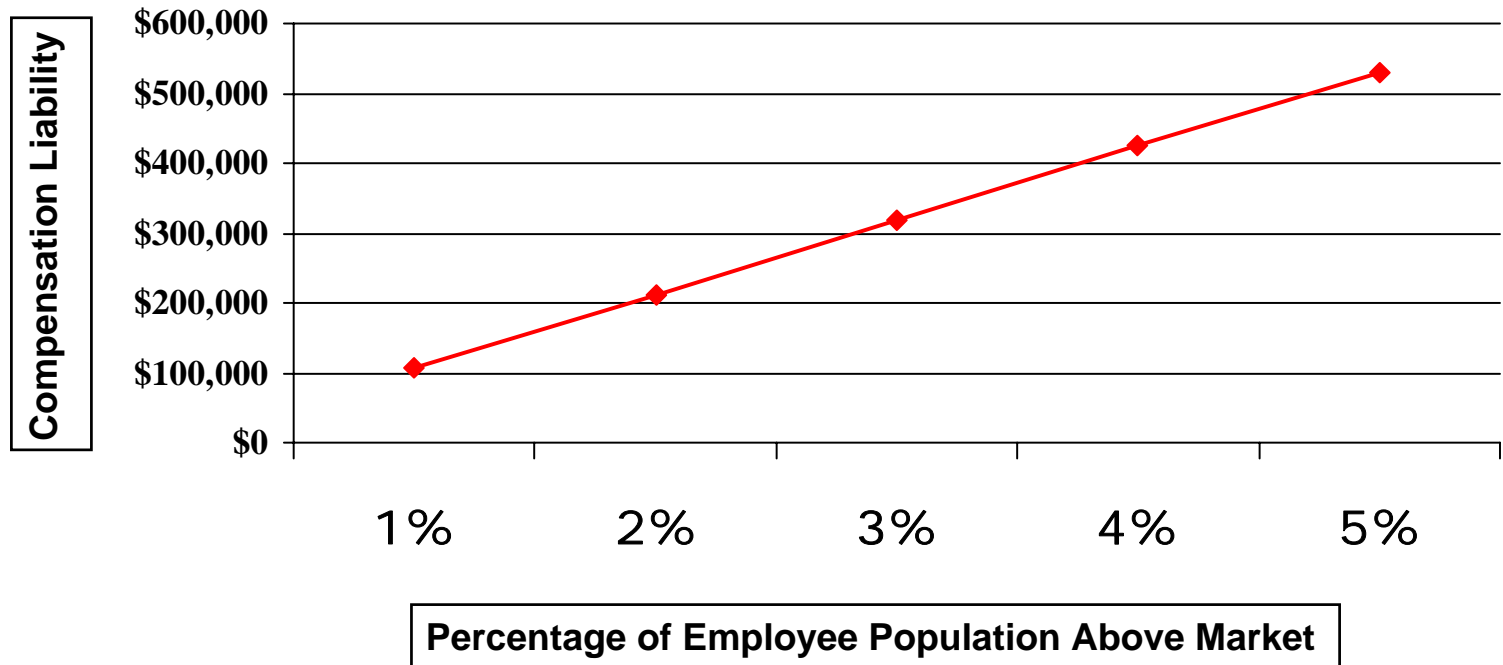
The Value of Being Market-Based

For Illustrative Purposes Only

Example:

Paying Above Market

- Dramatic cost implications!



- Assume workforce of 5,300
- Assume paying \$2,000 above market per employee

The Value of Being Market-based

For Illustrative Purposes Only

Example:

Paying Below Market

- Influences turnover
- Translates to dramatic costs:
 - $\frac{1}{2}$ of 1% turnover = \$795,000 annually*
 - Average turnover cost per employee = \$30,000 - \$50,000.**

Hard Costs	Soft Costs
<ul style="list-style-type: none"> • fees paid to search firms, • internal recruiting costs, • advertising, • referral bonuses, • on-the-job training, • coworker burdens such as overtime and added shifts, • reference checks • relocation costs 	<ul style="list-style-type: none"> • losses in productivity, • lower morale of remaining employees, • lower productivity of new hires, • additional supervision time required for new hires, • customer service implications • lost sales

* Based on workforce of 5,300 and turnover cost of \$30,000 per exiting employee

** Saratoga Institute

What Is The Base Pay Management Project?

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The Base Pay Management Project Scope

- Include “exempt” and “non-exempt/non-manual/non-union” employees
- Confirm market pricing recommendations through business leader involvement
- Develop interim administrative guidelines for making pay decisions (approved by Executive Council October 2003)
- Design and conduct training for market pricing process and administration
 - HR Professionals
 - Managers making pay decisions
- Further consolidate organization job titles
- Conduct FLSA review of jobs with unclear exemption status
- Determine roles and responsibilities for administration of compensation system

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High Level Workplan

Pre-Design Activity

- Review and Revise matched jobs prepared by Total Rewards and Hewitt Associates
- Review matching approach
- Review slotting approach
- Review matches with OC Leadership, HR professionals, Line Management, and others, as necessary
- Revise as appropriate
- Confirm matching
- Draft Total Rewards Philosophy

Base Pay System Design

- Confirm Total Rewards Philosophy with Project Team
- Review Job Family/Progression Structures in place across the enterprise
- Review Job Scope Leveling process
- Design architecture of base compensation program
- Design link between pay and performance (in conjunction with OD Network)
- Conduct variance analysis against individual jobs and new structure

Administrative Guidelines

- Develop pay positioning guidelines, including process for adjusting base pay out of sync with Total Rewards Philosophy and compensation program
- Develop administrative guidelines for base pay actions
- Determine roles and responsibilities for base pay decisions and actions

Communication & Change Planning

- Review results of variance analysis with business leaders
- Apply market adjustments to extreme outliers (determined through variance analysis)
- Implement new compensation system
- Develop training programs to communicate and educate on new compensation system
- Conduct training through 2004 and Q1 2005

What implementation is not...

- **Mass disruption of current individual compensation status**
- **Salary decrease for individuals above market rate of pay**
- **Salary increase for individuals below market rate of pay**

What implementation is ...

- **Planful change over a period of time**
- **May require red-lining for some employees**
- **May require lump sum awards instead of performance awards/adjustments (i.e. merit adjustments)**

Current Total Rewards Operating Philosophy

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Total Rewards Operating Guidelines

- Continue to pay base salary and incentive at the 50th percentile
 - Focusing on the 50th percentile enables NiSource to compete for the talent that is critical to its success while maintaining a competitive cost structure
- Review market data focused on areas in which NiSource competes for business and talent
 - The following market pricing breakouts will be referenced:
 - **National market**
 - **Energy industry for industry-specific jobs; general industry for all other positions**
 - **Revenue: \$1-\$5B revenue scope for manager-level and above**
- Conduct exempt market review every other year
- Tie pay to performance and differentiate pay actions to achieve pay satisfaction
 - Merit = Merit
 - Base Pay
 - Performance pay
 - Equity adjustments
 - Market adjustments
 - Career progression
 - Incentive
 - Spot Awards
- Strive for external *and* internal equity
- Provide meaningful variable pay opportunities
- Align pay plan design and administration with business performance
- Multiple paths
- Ensure transparency of compensation practices, as appropriate (e.g.. where you are slotted, but not necessarily all the data)
- Communicate and educate the enterprise on compensation programs and practices

Job Scope Level Structure

A,B,C

**Incentive Target: A – 25 – 82.5%
B – 20 – 67.5%
C – 15 – 52.5%**

D

Incentive Target: 12.5 – 45%

E

Incentive Target: 7.5 – 30%

F

Incentive Target: 5 – 15%

G

Incentive Target: 4 – 12%

Job Scope Level Descriptors

Level A, B, C: Executive positions whose assignments require primary and major responsibility for one or more specialized functions in the organization. Individuals are expected to possess well-developed leadership qualities and comprehensive knowledge of concepts, purposes, practices, and procedures of surrounding departments. Positions in Level A typically evaluate the progress and results of their departments and develop recommendations to improve/maintain services provided. Individuals at this level typically have a large span of control that may include accountability for multiple subsidiaries. Includes individuals in the NiSource Long-Term Incentive Plan.

Level D: Typically comprised of positions whose assignments require leadership responsibility for one functional area in a business segment, or multiple functional areas in a larger subsidiary. Focus is on long-term planning, design and strategy. Individuals are expected to possess detailed knowledge of concepts, purposes, practices, and procedures of at least one department and broad knowledge of concepts, practices, and procedures of other departments. Duties may cross functional areas and individuals may have significant latitude for their actions and/or decisions. Positions in Level D may be required to supervise employees in Levels E, F, G and/or nonexempt employees. Includes jobs such as Assistant General Counsel, Senior Manager - Generating Station Operations, General Manager – COH and Assistant Controller (Corporate).

Level E: Typically comprised of positions whose assignments require leadership in one functional area in a large subsidiary, or multiple functional areas in a smaller subsidiary, but with focus more often on transactional activity than long-term planning and design. Individuals perform mid to high-level activities that require some originality and ingenuity. These positions typically work under minimal supervision, conferring with supervisor only on unusual matters. Positions in Level E may be required to lead teams of others in Level F, G and/or nonexempt employees. Includes jobs such as Director of Financial Planning, Manager of Engineering, Director of Communications and Controller (Segment).

Level F: Typically comprised of positions whose assignments require specific technical expertise in one functional area of the organization. May also be senior level individual contributors without supervisory responsibility. Individuals possess specific knowledge of concepts, purposes, practices, and procedures of a particular department. Positions in Level F may be required to lead teams of others in Level G, as well as nonexempt employees. Includes jobs such as Operations Supervisor, Manager of Communications/Community Relations and Senior Consultant.

Level G: Typically comprised of entry- to experienced-level exempt positions whose assignments require specialized training or experience. Individuals provide support for organizational activities using knowledge of fundamental concepts, practices, and procedures of a particular department. Work is typically structured and drawn from established procedures. Positions in this level work under general supervision only. Includes jobs such as Specialist, Analyst, Coordinator, Representative, and Consultant.

Job Scope Level Structure Development

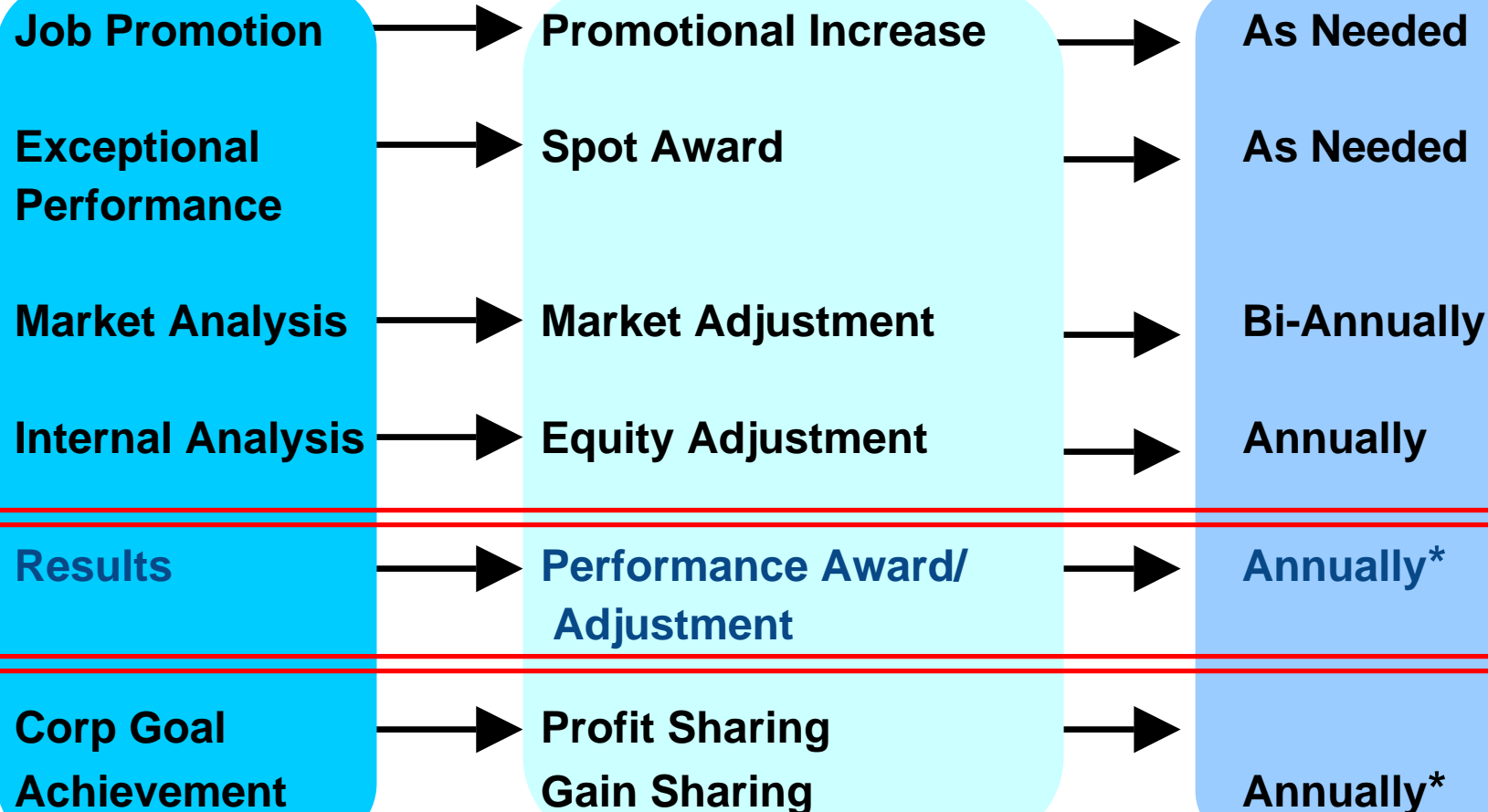
- **Developed and confirmed in January 2003**
- **Utilized external expertise (Hewitt) to assess external market trends and benchmarking**
- **Developed job scope level structure based on Hewitt data and internal organization assessment**

Link to Performance Management

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Total Reward Opportunities



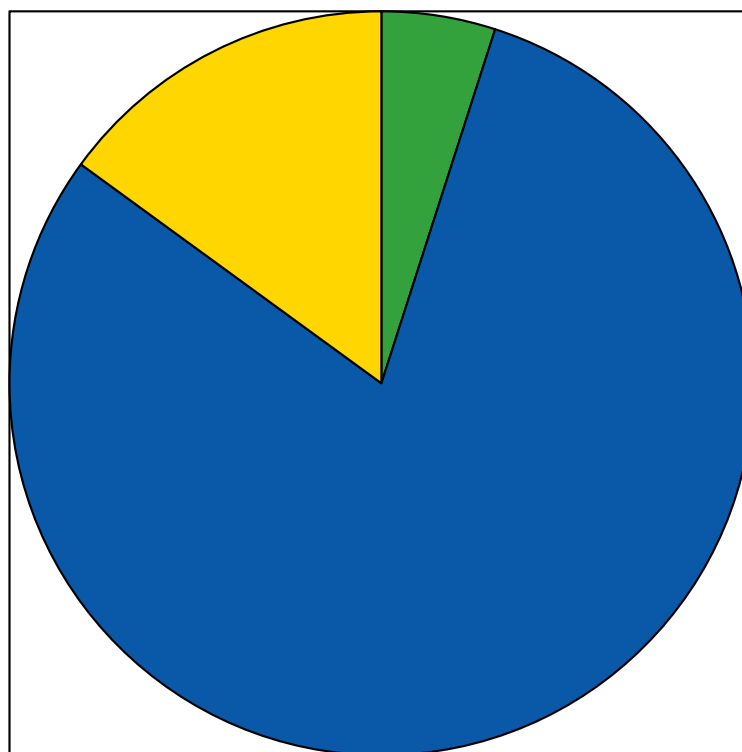
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* If/When a pool of dollars is available

Performance Award/Adjustment

- **Focus performance dollars on performance recognition only – use other adjustments for other reasons**
- **Must differentiate top performers to truly recognize contribution**
- **Top performers' increases will be more substantial**
- **For other valued performers, increases will maintain pay level compared to external economy**

Recommended Performance Distribution based on Job Scope Levels and Results



■ Less Effective
0-5%

■ Valued
80-85%

■ Top Performer
Less than 15%

Anticipated Challenges

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Anticipated Challenges

- **Helping people understanding there will not be mass disruption and change based on results**
- **Title change recommendations**
- **Implementing results of FLSA review**
- **Educating pay decision-makers on the additional accountability attached to increased flexibility**
- **Educating decision-makers on the monitoring processes**

Base Pay Management Team Introduction

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Team Introduction

- **Initiating Sponsor:**
 - LaNette Zimmerman
- **Supporting Sponsors**
 - Steve Barkauskas
 - Rob Campbell
 - Karen Lohss
 - Joel Hoelzer
 - Ed Santry
- **Change Agents**
 - Angel Hoover – Project Manager
 - Jim Brown
 - Kimberly Cartella
 - Leslie Gerson
 - Lori Johnson
 - Andrea O’Neal
 - Teresa Smith
 - Rob Shutko
 - Mary Ann Van Amstel
 - Erica Utterback

Next Steps

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Next Steps

- **Review recommendations for matching internal jobs to external market data**
 - Completed by Year End
- **Job Title Consolidation Review and Recommendations**
 - Completed by March
- **Leadership Review Schedule**
 - Through March
 - Leadership Council
 - Line Management
 - Other HR professionals
- **Administrative Guidelines Rollout**
 - April 2004
- **Anticipated Implementation Date**
 - March

Appendix A: External Market Trends

Overall Direction of Compensation

- **More Interest in...**
 - **A business oriented, strategic approach**
 - **Maximizing return on payroll investment**
 - **Simplified, market-based externally focused programs**
 - **Being more open about compensation decisions**
 - **Support development opportunities**
 - **Multiple compensation delivery programs**
 - **Use of “e” (Intra-Internet) to communicate, manage and deliver programs**

External Market Trends...

Job Valuing and Market Pricing

- **Movement toward market data supplemented with job slotting**
- **More openness and communication to enhance understanding and acceptance**
- **Greater manager participation in process**
- **Diminished need/desire for precision—dynamic organizations need flexibility and are constantly changing**
- **“Equity” redefined**
 - **Equitable with the market**
 - **Equitable internally within job**
- **Use of cross-industry data for cross-industry jobs...recognizing difference between business competitors and employment competitors**

External Market Trends... Salary Structures

- **Push for fewer grades and simplified structures**
- **Greater management discretion in use of ranges...less use of control points**
- **Wide ranges being used to support organizational transformation (delaying, career and skill development, new culture/climate, organizational flexibility)**
 - **Successful when not viewed as compensation methodology only**

External Market Trends... Compensation Delivery

- **Focus on rewarding performance—individual, group, organizational**
- **Increased manager discretion and flexibility in compensation delivery**
- **Reduced number of performance levels (two or three)**
- **Movement away from using a merit matrix that incorporates salary range position**
- **Increased prevalence of variable compensation programs**
 - **Support and communicate strategic direction**
 - **Greater focus on business education—movement from results sharing to results creation...how employees create results**
 - **Rapid growth in special recognition awards and spot recognition programs**

Appendix B: NiSource Facts

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Employee Scope: “exempt” and “non-exempt/non-manual/ non-union” employees

- **Includes:**
 - Exempt employees
 - Administrative and technical employees with non-exempt FLSA status
 - **Job Families included:**
 - **XX**
 - **XX**
 - **XX**
- **Does not include:**
 - Non-exempt employees conducting manual work or work in the operations field
 - Front-line manual workers that have union counterparts

[REDACTED]
Executive Admin Assistant
Supervisor: [REDACTED]
Department: Regulated Revenue Exec-SLC
Location: Merrillville, IN SLC

TOTAL COMPENSATION COMPONENTS

Market Driven Base Pay – Your base pay range is the competitive value of your job. To ensure that your job was valued correctly, we looked at and evaluated the compensation at other companies within our industry and outside our industry for the same or similar types of work. We established a pay range for your job based on this study. Our objective is to pay within this range.

Job Scope Level/Incentive Level – Each job is assigned a job scope level linked to an incentive range that is based on the specific requirements of the job. The job scope structure provides an overall framework for compensation and career development through six broad roles/levels of work within the enterprise. The incentive range also provides additional individual earning potential, based on the ability of the corporation to meet defined corporate goals for the year that will fund any payout.

Employee Benefits Program – Your benefits . . . retirement, health plan coverage, paid time off and NiSource's contributions to Social Security / Medicare . . . are not as tangible as cash, but they are a significant part of your total compensation – approximately 40 cents for every dollar of your base salary.

Performance Pay Increases – Performance adjustments (percentage increases to base pay) or performance awards (lump sum payments) will be used to recognize and reward performance as measured through the annual performance review process.

Current Base Salary	\$45,802
Market Range	\$38,000 - \$63,400
Job Scope Level	NE
Incentive Opportunity (based on company performance)	6% Target
FLSA Status	Nonexempt

Introduction to Base Compensation Changes

NiSource Total Rewards

- NiSource is committed to providing a consistent, comprehensive Total Rewards package that is:
 - Competitive in our marketplace
 - AND**
 - Valuable to employees at various life stages
- **Total Rewards = Compensation + Benefits**

Base Compensation Changes

What's Happening

- NiSource is making changes to our base compensation program – a key part of our Total Rewards program
 - Changes include new base compensation market ranges and some changes to titles (most changes are minor)

Who's Impacted

- Employees in all business units and at all levels
 - You will meet with your supervisor or manager to learn about your new base compensation market range and your new title, if applicable

Your base compensation will not go down as a result of the changes

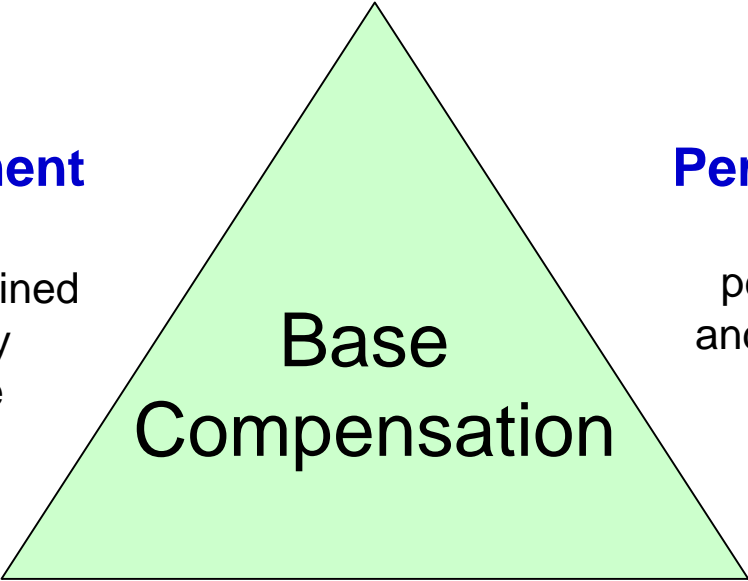
What Determines Your Base Compensation

Pay Adjustment Pool

Funding determined
by company
performance
and external
influencers

Performance

Your
performance
and contribution



**Base
Compensation**

External and Internal Equity

Your performance and contribution
compared to other incumbents
in the same or like jobs at NiSource
and at comparator companies

The Business Reasons for Change

Why make changes to our compensation program?

- Support NiSource One Voice; achieve greater consistency
- Link employee pay ranges to up-to-date external market data
- Increase our focus on internal equity
- Facilitate talent sharing among business units



Our Base Compensation Philosophy

- Every job has a **pay range and job scope level**
- **External and internal markets** drive pay ranges and job scope levels
 - Bi-annual reviews will assure continuing market competitiveness
- We'll move toward **equity and similar pay ranges** for like jobs across all business units
 - Our current pay situation results from a variety of pay philosophies and circumstances
- Our objective is to **pay within the range**
- Throughout the company, we'll use **consistent approaches and guidelines** for pay decisions

Next Steps

- **One-on-one discussions with your supervisor or manager**

Questions?

Communicating and Implementing Base Compensation Changes

Session for Leaders

October-November 2004

Purpose

- Today's session will prepare you to **confidently** communicate with employees:
 - In group meetings
 - In one-on-one sessions with your direct reports
 - As you answer employees' questions

Agenda

- Introduction to the base compensation program
- Holding one-on-one compensation discussions
- Next steps



Who's Included

- Exempt positions
- Non-exempt/non-union/non-manual positions
 - Exception: Columbia Distribution administrative/technical positions

Your Resources

Your resource:	How you'll use it:
Appendix to this presentation	To learn the details about the base compensation program
Employee group meeting presentation/speaker notes (15 minutes)	To explain changes during scheduled group meetings
One-on-One Discussion Guide and Q&As	To guide your one-on-one meetings with employees
Pay variance report	To see an overall view of compensation for your direct reports
Individual compensation statements	To help explain compensation to each employee
Meeting with your HR Consultant	To prepare for one-on-one meetings with your direct reports



- Access resources via the portal: Directory>Browse>Directory>Employee Information>Base Pay Management₅

Introduction to the Base Compensation Program

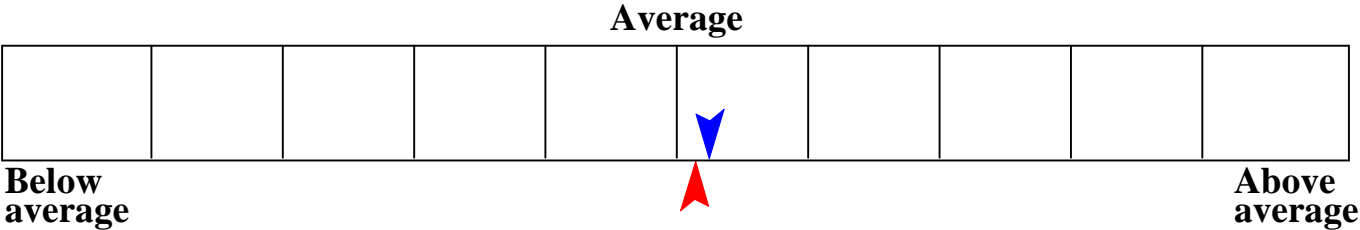


NiSource Total Rewards

- NiSource is committed to providing a consistent, comprehensive Total Rewards package that is:
 - Competitive in our marketplace
 - AND**
 - Valuable to employees at various life stages
- Total Rewards = Compensation + Benefits

Base Compensation and Total Rewards

Base Compensation and Benefits* Paid by Employers



Legend

Compared to Utilities

- ▶ All NiSource benefits Above average (7.5%)
- ▶ NiSource base compensation Above average (6.0%)

*Benefits include health and welfare and retirement benefits.

Source: Hewitt Associates.
Benefits Data: August 2003,
Compensation Data: November 2003

The Business Reasons for Change

Why move to a single compensation process?

- Support NiSource One Voice; achieve greater consistency in our processes
- Link employee base compensation ranges to up-to-date external market data
- Increase our focus on internal equity
- Facilitate talent sharing among business units



Our Base Compensation Philosophy

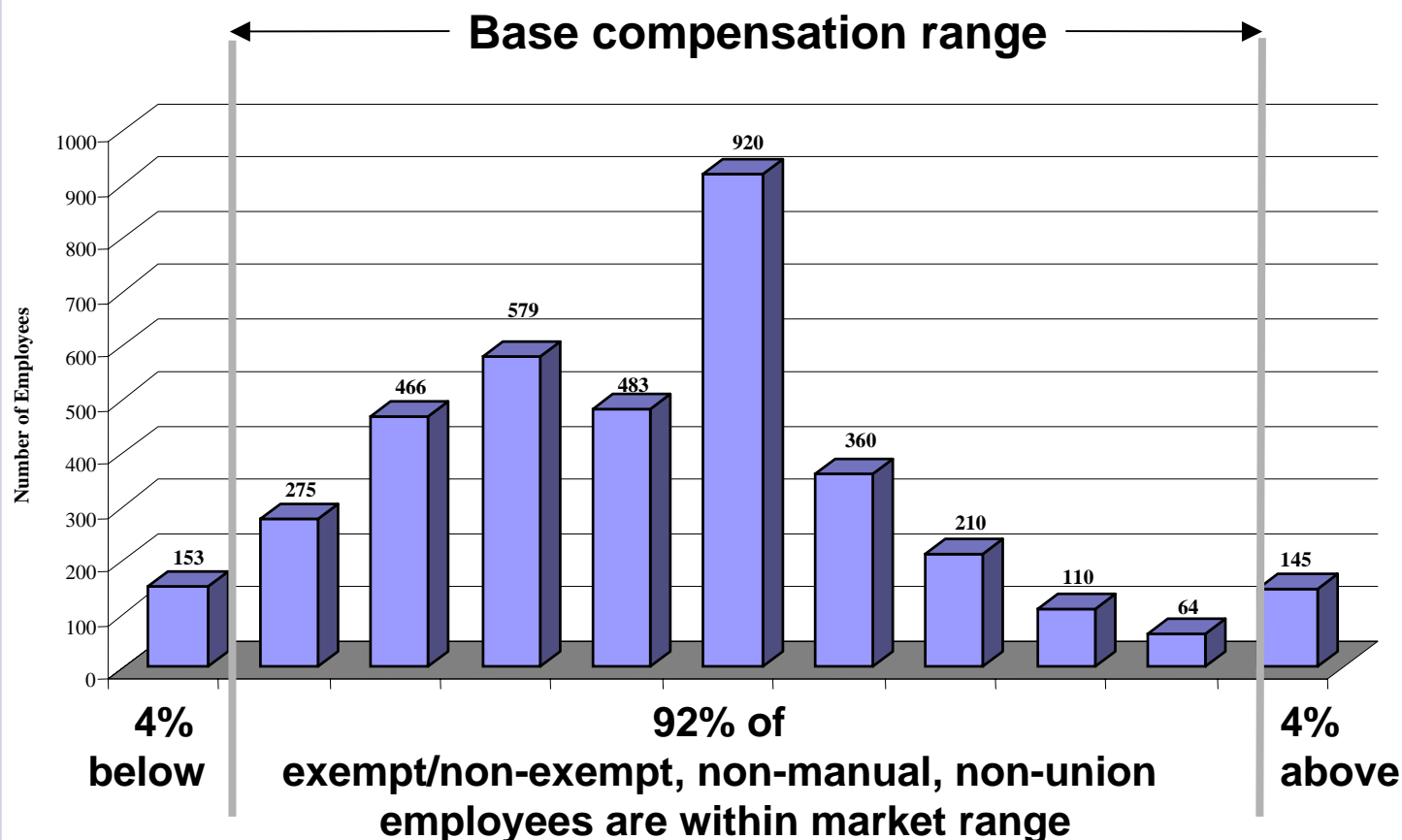
- Move toward **equity and similar base compensation ranges** for like jobs across all business units
- Our objective: **pay within the range**
- Throughout the company, we'll use **consistent approaches and guidelines** for:
 - Compensation decisions
 - Promotions and demotions
 - Lateral moves
 - Job progressions
 - Spot awards and other recognition

Our Base Compensation Philosophy

- Compensation is **performance based**
 - **Performance adjustments/award** will be used to recognize and reward performance as measured through the performance management process
- You'll have **pay delivery opportunities** to:
 - Recognize/reward advancement within the same job scope level (**Progression adjustment**)
 - Recognize/reward advancement to a position that involves a significant (e.g. 50%) increase in responsibility and job scope level (**Promotion adjustment**)
 - Appropriately align compensation with internal peers if compensation is significantly lower than peers with same role and like performance (**Internal equity adjustment**)
 - Appropriately align compensation with the external market (**External market adjustment**)

Holding One-on-One Compensation Discussions

Most Base Compensation Within Market Ranges



Based on July 2004 Base Salaries and Current Market Job Link, July 29, 2004

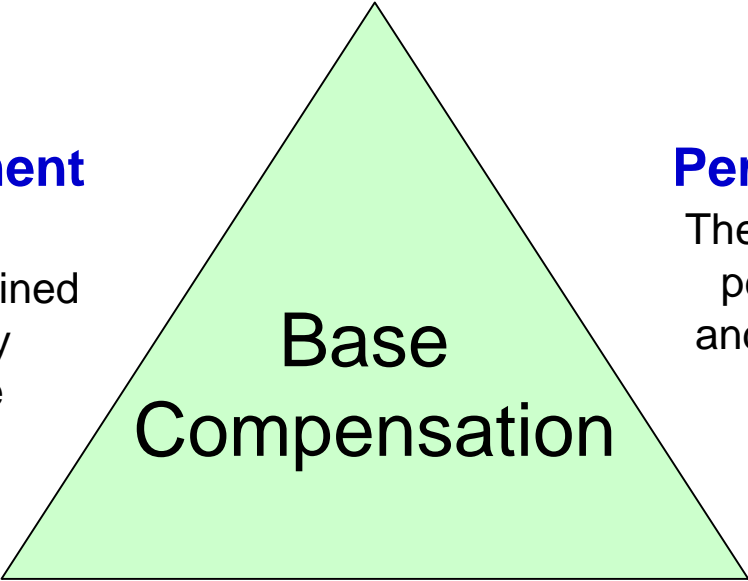
Factors Impacting Base Compensation

Pay Adjustment Pool

Funding determined
by company
performance
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Performance

The employee's
performance
and contribution



**Base
Compensation**

External and Internal Equity

Employee's performance and contribution
compared to other incumbents
in the same or like jobs at NiSource
and at comparator companies

Activity: One-on-One Compensation Discussions

Purpose

- To prepare you to review base compensation with employees and answer their questions about their compensation

Your Tools

- One-on-One Discussion Guide and QAs
- Sample variance report with performance information

Activity: One-on-One Compensation Discussions

	1	2	3	4	5	6	7
	NiSource Actual Base	Market Range Minimum (75%)	Variance to Minimum	Market Range Median	Variance to Median	Market Range Maximum (125%)	Variance to Maximum
Morgan	\$66.3	\$50.3	31.9%	\$67.0	-1.1%	\$83.80	-20.9%
Ryan	\$47.0	\$50.3	-6.5%	\$67.0	-29.9%	\$83.80	-43.9%

Activity: One-on-One Compensation Discussions

Process

- Divide into groups of 8-10
- Individually (10 minutes):
 - Review the One-on-One Discussion Guide
 - Review your variance report and performance information
 - Consider each employee's situation and possible one-on-one discussion points
- As a group (20 minutes):
 - Discuss how to approach each employee's situation in turn
 - Identify questions that employees in similar situations may ask
 - Discuss how you will answer employees' questions
 - Be prepared to share your thoughts with the larger group

Debrief: One-on-One Compensation Discussions

What questions do you expect to hear most frequently?

What will be your biggest challenge in these discussions?

What might employees see as good news?

Next Steps



Next Steps

November 9 – 30

- Make your best effort to include the employee presentation in a regular staff meeting

November 12

- Receive employees' individual compensation statements from HRC
 - Schedule employee group meetings
 - Prepare for one-on-one discussions with each employee

November 12 – 30

- Meet with each employee whose base compensation will increase in December, distribute individual statements (First pay period = December 7)

November 12 – December 31

- Meet with each employee to explain base compensation and incentive ranges, distribute individual statements
- Discussion will include all exempt and all non-exempt/non-union/non-manual employees, except Columbia distribution administrative/technical employees

Communicating and Implementing Base Compensation Changes

Thank you!

October-November 2004

Appendix

Our Base Compensation Philosophy

- Every job has a **base compensation range and job scope level**
- **External and internal markets** drive base compensation ranges and job scope levels
 - Bi-annual reviews will assure continuing market competitiveness
- **Individual conversations** with leaders will provide employees with information about their compensation ranges and job scope levels

Our Base Compensation Philosophy

- Move toward **equity and similar base compensation ranges** for like jobs across all business units
 - Our current compensation situation results from a variety of compensation philosophies and circumstances
- Our objective is to **pay within the range**
 - For compensation above the maximum of the range:
 - We will not cut compensation that is above the maximum of the range
 - Generally, changes to base salary will be capped until the range moves higher than the employee's salary
 - For compensation below the minimum of the range:
 - Our intention is to move base salary toward the range over time
 - Movement depends on employee performance and adjustment pool funding

Our Base Compensation Philosophy

- Throughout the company, we'll use **consistent approaches and guidelines** for:
 - Compensation decisions
 - Promotions and demotions
 - Lateral moves
 - Job progressions
 - Spot awards and other cash recognition
- Leaders have primary **responsibility** for compensation decisions and **flexibility** to make appropriate compensation decisions using pay delivery guidelines
 - Your ability to adjust compensation will be driven by funding of the pay adjustment pool
- HRC and the Total Rewards Team will provide **consulting support**

Our Base Compensation Philosophy

- Compensation is performance based
 - **Performance adjustments** will be used to recognize and reward performance as measured through the performance management process
- Other pay delivery opportunities (Percentage guidelines are found in the HR Process Guide):
 - **Progression adjustment.** To recognize/reward advancement within the same job scope level
 - **Promotion adjustment.** To recognize/reward advancement to a position that involves a significant (e.g. 50%) increase in responsibility and job scope level
 - **Internal equity adjustment.** To appropriately align compensation with internal peers if compensation is significantly lower than peers with same role and like performance
 - **External market adjustment.** To appropriately align compensation with the external market

The Job Review Process

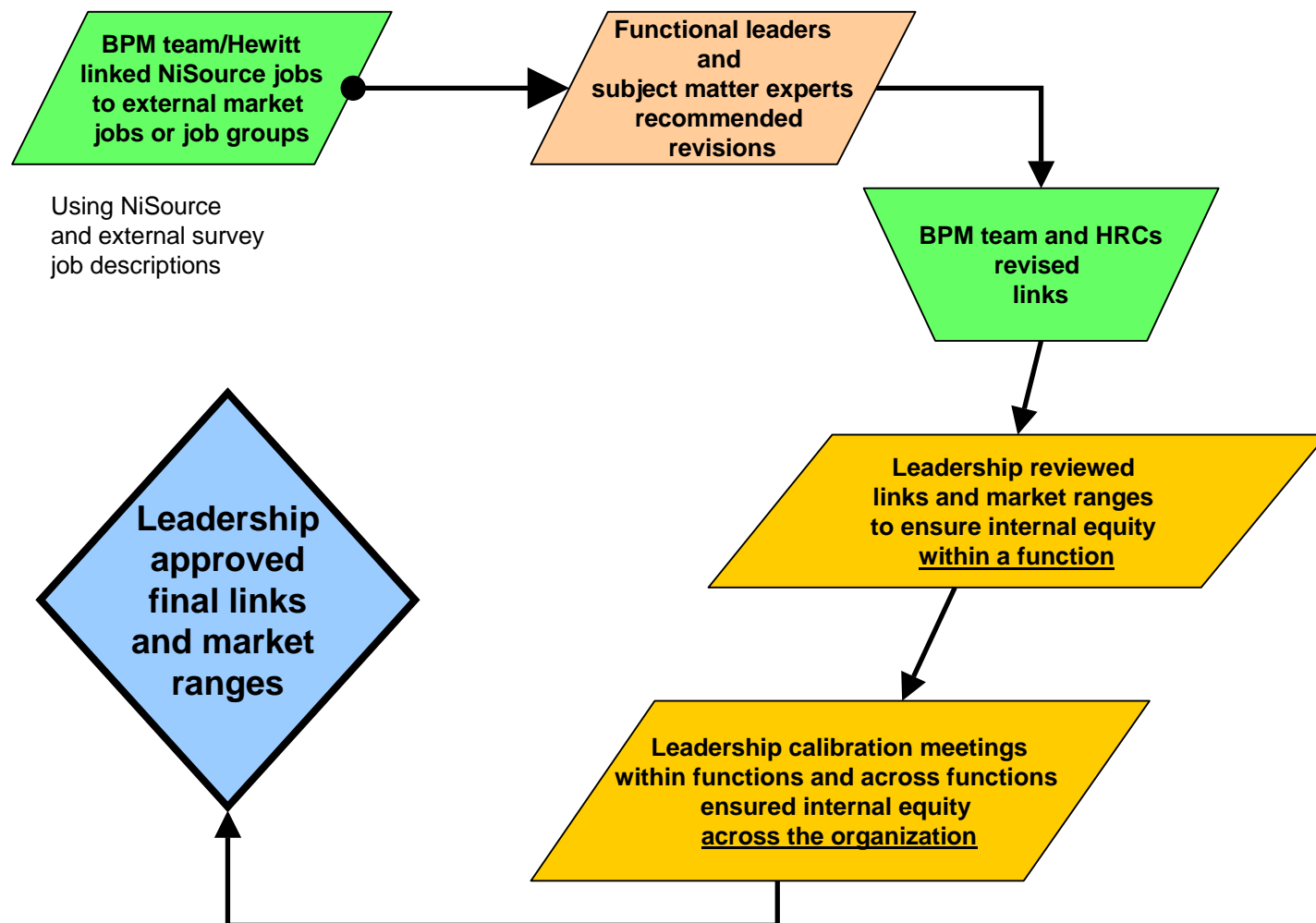
Scope of review process:

- Compensation for exempt/non-exempt/non-manual/non-union jobs
- Job scope levels/bonus ranges
- Job titles
- Fair Labor Standards Act (FLSA) classification
- EEO Code

Who was involved:

- VP/GMs
- Directors, managers, supervisors
- Incumbent employees (subject matter experts)
- HR staff
- Compensation experts from Hewitt Associates, a respected leader in compensation

The Job Review Process



The Job Review Process

Guiding Principles

- Process: Focused on the **jobs, not people** in the jobs
- Market links: Based on **responsibilities, not titles**
- Market data: Taken from **general industry and industry-specific** surveys

Results of Job Review Process

Market Pricing

- NiSource jobs were linked to market data

Job Titles

- Consolidated and coordinated titles across the organization
- 1,122 titles became 930 titles
- Developed broad titling guidelines

Results of Job Review Process

Job Scope Levels

- Placed each job in one job scope level, based on specific requirements of the job
- A job's bonus range changed if the job scope level changed

<i>Job Scope Level</i>	D	12.5 - 45%	<i>Bonus Range</i>
	E	7.5 - 30%	
	F	5 - 15%	
	G	4% - 12%	
	H (NE)	Varies	

Job Scope Level Descriptions

Level D:

- This level is typically comprised of positions with leadership responsibility for one functional area in a business segment, or multiple functional areas in a larger subsidiary. Focus is on long-term planning, design, and strategy. Individuals are expected to possess detailed knowledge of concepts, purposes, practices, and procedures of at least one department and broad knowledge of concepts, practices, and procedures of other departments. Individuals are considered to be subject-matter expert in their field and/or have strategic management responsibilities of multiple groups or areas. They are accountable for implementing operational objectives as defined by executives and in alignment with key business objectives. Duties may cross functional areas and individuals may have significant latitude for their actions and/or decisions. Positions in this level typically required to supervise employees in other levels.

Level E:

- This level is typically comprised of positions whose assignments require leadership in one functional area in a large subsidiary, or multiple functional areas in a smaller subsidiary. These positions have more of a focus on transactional activity than long-term planning and design. Individuals are primarily responsible for integrating, allocating, and managing resources for process, projects, and operational initiatives. Individuals perform mid- to high-level activities that require some originality and ingenuity. These positions typically work under minimal supervision, conferring with supervisor only on unusual matters. Positions in this level typically required to lead teams of other employees.

Job Scope Level Descriptions

Level F:

- This level includes positions whose assignments require specific technical expertise in one functional area of the organization. Individuals in this level are primarily responsible for facilitating/leading processes, projects, and/or people, under supervision. May include senior-level individual contributors without supervisory responsibility. Individuals possess specific knowledge of concepts, purposes, practices, and procedures of a particular department. They are accountable for the performance and integration of activities within the team/group/unit, including the effective use resources. They often participate in department decision-making process. Positions in this level may be required to lead teams of other employees.

Level G:

- This level typically comprised of entry- to experienced-level exempt positions whose assignments require specialized training or experience. Positions have basic to working knowledge in a recognized professional discipline or field of expertise. Individuals provide support for organizational activities using knowledge of fundamental concepts, practices, and procedures of a particular department. Job activities typically include: designing programs/processes; compiling, analyzing, and interpreting data; recommending alternative approaches or solutions; working on problems of moderate scope; and implementing activities. Work is typically structured and drawn from established procedures. Individuals participate in team/group/unit decision-making process and shares accountability for those decisions and results. Positions in this level work under general supervision only.

Level H:

- This level includes positions that are primarily responsible for administrative and/or technical support, coordination, production, and maintenance of daily tasks and operations. The primary focus of these positions is on performing routine daily tasks or operational activities, using established guidelines and working under close supervision. Job activities require basic problem solving and limited decision-making. Individuals are accountable for accomplishment of individual assignments and achievement of established expectations. Positions in this level are nonexempt.

The Link Between Compensation and Performance



Annual Performance Management Process

How Employees Will Be Impacted

General Impact on Employees

Market adjustments for compensation below range

- Approximately 4% of employees are paid below range minimum
- compensation **may be adjusted** depending on performance and budget – market adjustments may occur over time

Some titles will change

- Most are minor changes to attain consistency

Individual Impact

Scenario #1: Base Compensation Within the Range

Who

- About 92% of employees

Messages

- Compensation may move over time based on employees' sustained performance and availability of funding

Individual Impact

Scenario #2: Base Compensation Below Minimum of Range

Who

- About 4% of employees

Messages

- Market adjustments may be used to move employees closer to the minimum of the market range, assuming performance
- Any adjustments may occur over time

Individual Impact

Scenario #3: Base Compensation Above Maximum of Range

Who

- About 4% of employees

Messages

- Base salary will not be reduced
- Generally, changes to base salary will be capped until range moves higher than base salary
- Employees may be eligible for lump-sum performance awards instead of performance adjustments that add to base salary
 - Adjustments depend on performance and funding of pay adjustment pool

Individual Impact

Scenario #4: Title Change

Who

- Approximately 1,540 employees or 41%

Messages

- Title changes better align NiSource jobs with internal and external markets
- Most are not significant title changes
 - For example: “Manager of Operations” becomes “Manager Operations”
 - For example: “Field Service Team Leader” becomes “Team Leader Field Services”

Key Total Rewards Communication Opportunity

For employees paid within their market ranges:

- Base compensation within market range is competitive
- Base compensation for about 96% of our employees is within or above their market ranges
- We've taken many steps to ensure that our Total Rewards package is aligned with the market
- We will continue to monitor our market to ensure base compensation and Total Rewards are competitive in our market

Comparator Companies – Utility Industry

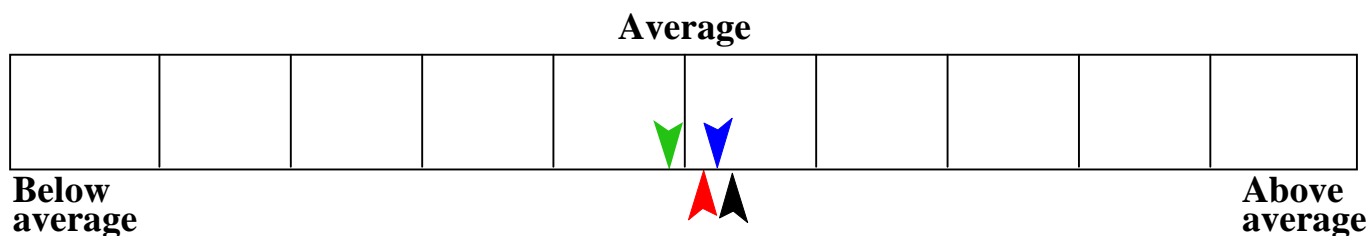
- Ameren Corporation
- American Electric Power
- CenterPoint Energy
- Cinergy Corp.
- CMS Energy
- DTE Energy Company
- Duke Energy Corporation
- Energy Services, Inc.
- Nicor Inc.
- Peoples Energy Corporation
- Progress Energy Service Company, LLC
- Public Service Enterprise Group
- Reliant Resources, Inc.
- Southern Company
- TXU

Comparator Companies – General Industry

- ALLTEL Corporation
- Baxter International Inc.
- The Black & Decker Corporation
- Campbell Soup Company
- Cummins Engine Company, Inc.
- Eaton Corporation
- Fortune Brands, Inc.
- General Mills, Inc.
- The Gillette Company
- The Goodyear Tire & Rubber Company
- Newell Rubbermaid
- Nike, Inc.
- The Sherwin-Williams Company
- Tellabs Operation, Inc.
- Tribune Company

Base Compensation and Total Rewards

Base Compensation and Benefits* Paid by Employers



Legend

Compared to Utilities

- All NiSource benefits Above average
- NiSource base compensation Above average

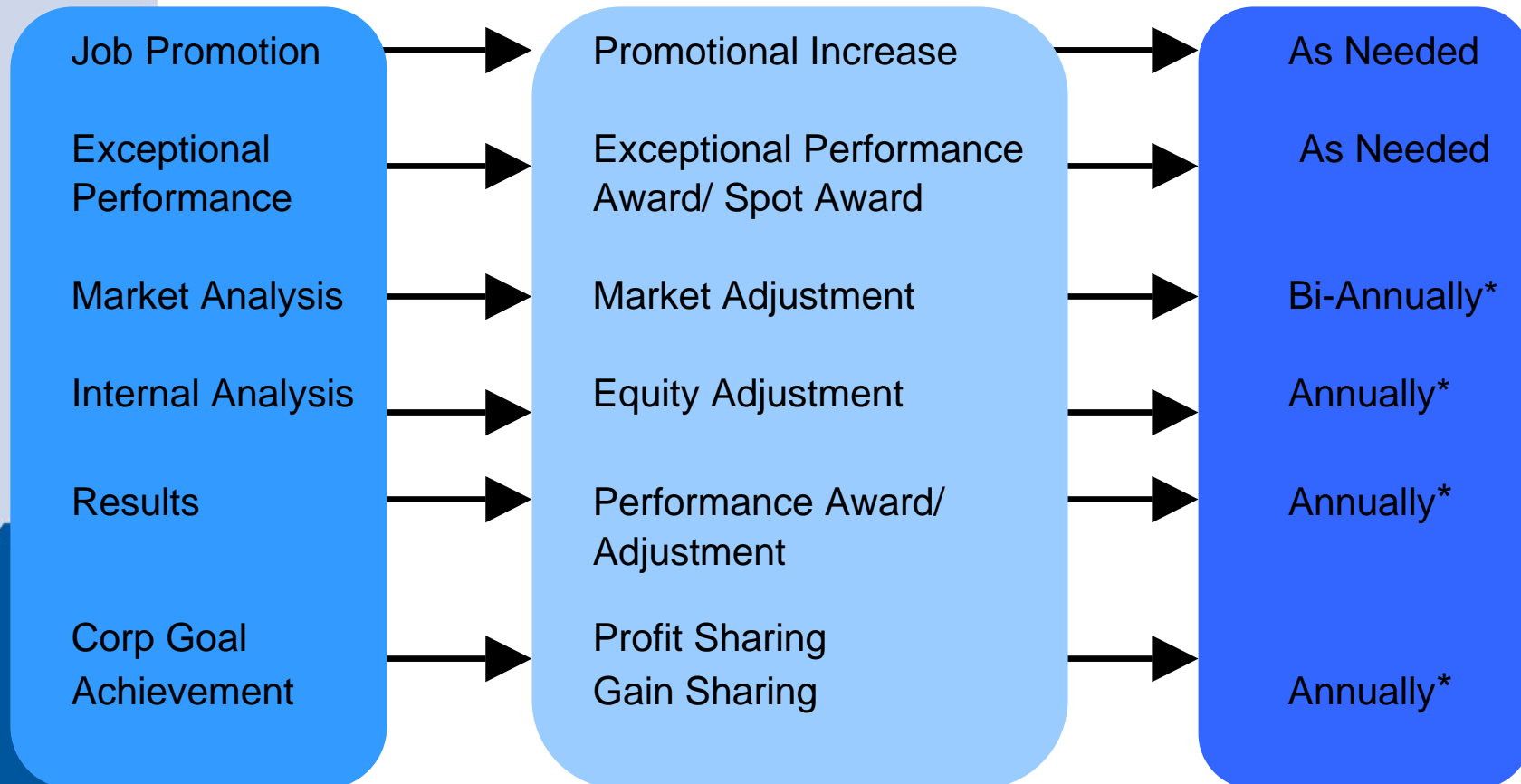
Compared to General Industry

- All NiSource benefits Above average
- NiSource base compensation Below average

*Benefits include health and welfare and retirement benefits.

Source: Hewitt Associates.
Benefits Data: August 2003,
Compensation Data: November 2003

Total Reward Opportunities



* If/When a pool of dollars is available

Pay Positioning Guidelines

Pay Targeted Between 75% and Market Median	Pay Targeted at or Close to Market Median	Pay Targeted Between Market Median and 125%
<ul style="list-style-type: none"> Individuals who are developing an understanding/knowledge of the job, area of responsibility, and/or enterprise by building upon previous experience and knowledge. For example: <ul style="list-style-type: none"> Works under the guidance of others. Is in a learning mode—not yet considered fully competent in the job or the skills/knowledge required. May include individuals who are fully competent in their role, but are new to the enterprise and still need to demonstrate proven performance. Individuals who are not consistently meeting performance expectations or who are considered below-average contributors. 	<ul style="list-style-type: none"> Individuals who are demonstrating/applying a comprehensive knowledge and understanding of the concepts, practices, procedures, and responsibilities required of the job. For example: <ul style="list-style-type: none"> Works and contributes independently, and/or with minimal guidance. Demonstrates proficiency in all responsibilities of the role. Suggests improvements to processes and procedures. Applies knowledge/understanding of role to anticipate and meet “customer” needs/requirements. A consistently solid performer and contributor. Individuals are usually viewed as a resource by others within or outside of their immediate area. 	<ul style="list-style-type: none"> Individuals who are growing/expanding one’s job beyond its normal definition and expectations. For example: <ul style="list-style-type: none"> Trains, leads, and coaches others in the same role. Assumes or develops additional but related opportunities/responsibilities. Leads projects or processes. Implements improvements to processes and procedures. Proactively partners with “customers” to understand their needs and issues. Proactively seeks new ways to contribute ideas, add value, etc. Is a consistently excellent performer and contributor. Individuals are usually viewed as subject-matter experts or role models inside and/or outside the team. Individuals are likely being considered for increased responsibility or promotion.

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
TWELFTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY GENERAL
D. T. E. 05-27

Date: July 13, 2005

Responsible: Steven A. Barkauskas, Vice President Total Rewards
NiSource Corporate Services Company

AG-12-11 Referring to Exhibit BSG/SAB-1, page 16, please provide a complete copy of Hewitt's recommendations referred to on lines 19-21.

Response:

As described at Exhibit A of the Company's response to information request AG-12-9, NiSource undertook a base pay management project that including matching jobs across the entity with market jobs to ensure that NiSource was compensating employees at or around the market. The foundation for the matching portion of the project was Hewitt's MarketLink system. NiSource linked nearly 1,000 jobs to market jobs contained in the Hewitt system and measured the pay of each individual employee in the NiSource positions against a range of 75 percent to 125 percent of the market median for each of the jobs linked, as determined from various salary survey sources.

Attachment AG-12-11 contains a high-level, graphical view of the findings of the base pay management program with regard to base pay for all of NiSource. NiSource determined, with the help of Hewitt, that base pay for employees below the ranges would be increased to the minimums of the ranges. The increases were given through a variety of means providing that the affected employees were in good standing, had no performance issues and their managers agreed to the increases. For Bay State, 10 employees were below, and 6 employees were above, the ranges of their respective positions.

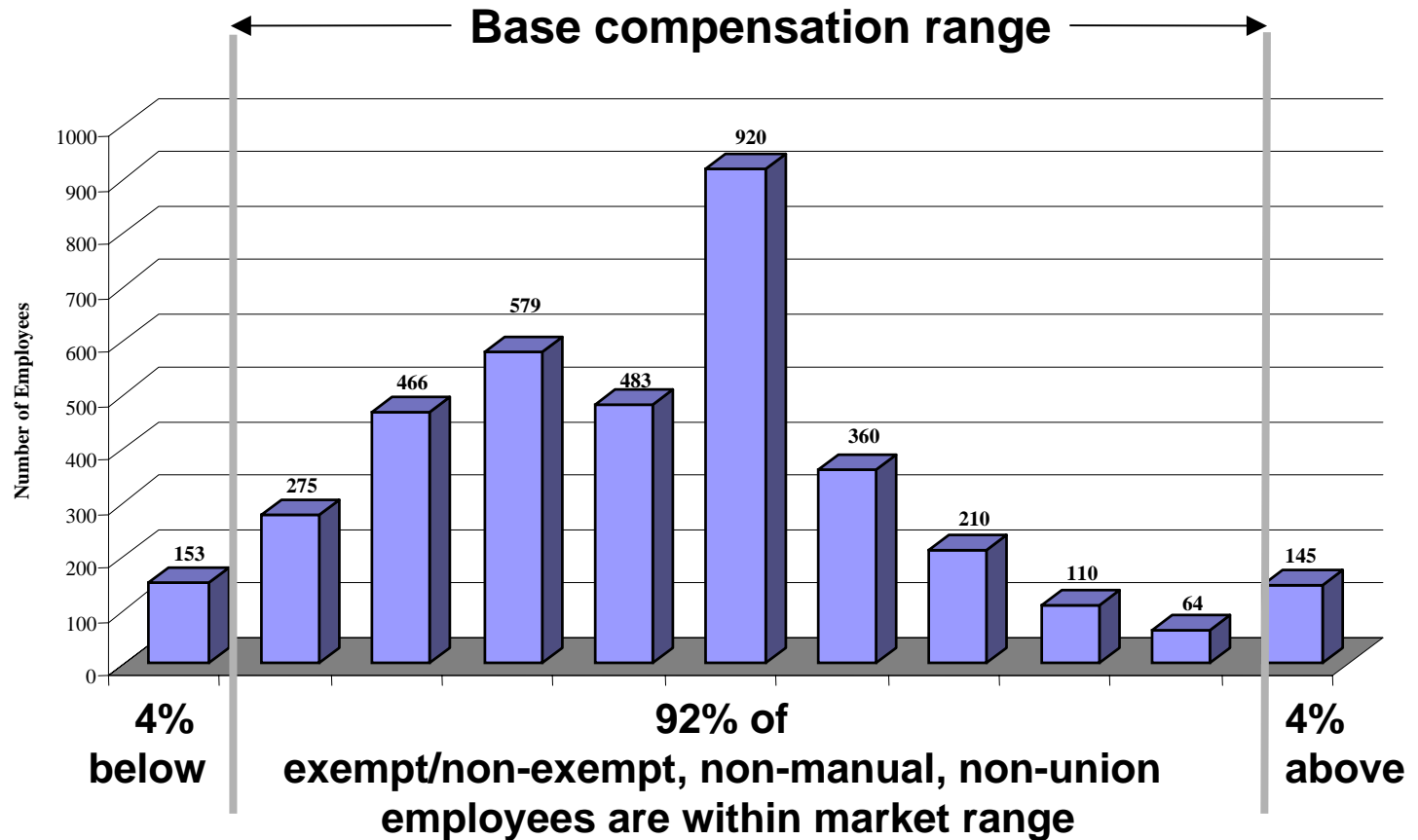
Most Base Compensation Within Market Ranges

Bay State Gas Company

D.T.E. 05-27

Attachment AG-12-11

Page 1 of 1



Based on July 2004 Base Salaries and Current Market Job Link, July 29, 2004